



June 27, 2008

Mr. Phil Isenberg, Chair
Delta Vision Blue Ribbon Task Force
Delta Vision
650 Capitol Mall
Sacramento, CA 95814

Dear Mr. Isenberg:

I am attaching Environmental Defense Fund's *Recommended Financial Principles for the Delta Vision* for review and consideration by the Delta Vision Blue Ribbon Task Force. These principles explain how the "Beneficiary Pays" principle pertains to the anticipated scope of the Delta Vision. The principles have already been submitted to the Stakeholder Governance Committee, though only after the deadline for submission prior to the release of the June 18, 2008, preliminary staff draft of the Delta Vision Strategic Plan.

As always, I and others at the Environmental Defense Fund would be pleased to discuss this matter further, with the Blue Ribbon Task Force, the Stakeholder Advisory Committee, or any other interested parties.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Spreck Rosekrans'.

Spreck Rosekrans
Senior Analyst

Environmental Defense Fund

Recommended Finance Principles for the Delta Vision

June 2008

While the specific infrastructure components and other program elements of Governor Schwarzenegger's Delta Vision have not yet been revealed, all stakeholders would agree that significant investments will be required and that the identification of sufficient sources of funding is likely to be a critical hurdle. Clearly, without financing, no major projects and programs will proceed.

The purpose of this document is to recommend an approach to the allocation of financing responsibilities with respect to different program elements that will require investments. We recommend that the Blue Ribbon Task Force adopt a clear set of "Beneficiary Pays" principles as part of its Delta Vision that will encourage efficient use of water supplies and be practical to implement.

Program Elements Requiring Funding

At this stage in the process, it would appear that the elements of the Delta Vision that would lend themselves to distinct financing principles include the following:

- Land acquisition for physical habitat restoration and floodplain improvements
- Levee improvements and maintenance
- Water agency programs and projects
- Environmental water operations
- Science
- Emergency management actions
- Potential new conveyance facilities
- Potential new storage facilities

Funding Sources

While there is any number of ways to distribute costs for the various program elements, there are limited sources of funds. Primary sources are likely to be public funds from the State treasury, derived through annual appropriations or general obligation bonds, and water agencies that derive supplies from the Delta and the rivers that feed it. There may be a role for federal funds, but we advise the Blue Ribbon Task Force to be careful not to assume any role for federal funds that is speculative or overly optimistic. There are a host of other parties that should, in our view, play a role in funding some program elements, notably levee maintenance, in addition to the State and water user funds identified above.

Different geographic areas and different economic sectors of California will benefit to different degrees from water supplies derived from a restored Delta. To the maximum feasible extent, we believe that all costs of projects should be borne by project

beneficiaries, and costs should not be shifted to groups that do not benefit. There are certain types of investments likely to be required for the Delta Vision whose benefits are public in nature, and can justifiably be financed with public funds. However, the lion's share of the cost anticipated for a "Delta fix" and the commensurate benefits is primarily associated with water supply and should be therefore by paid for by the water recipients. Departing from this principle would eliminate critical incentives that result in efficient water use and in the development of appropriate programs and projects whose benefits truly exceed their costs.

We recommend that the costs of the fixing the Delta that are related to water delivery systems, including related costs of environmental mitigation and restoration, be financed by agencies that deliver water and ultimately be passed on to retail customers. There is an obvious distinction between water agencies whose supplies are derived from Delta diversions and agencies whose supplies are diverted upstream of the Delta. Below we refer to "water export agencies" and a "broad-based water use fee" to distinguish the different recommended funding responsibilities for these categories. In both cases, we recommend that fees collected be proportional to the volume of water diverted.¹

Assigning financial responsibility

Adhering to the "Beneficiary Pays" philosophy, we recommend that the following principles be applied in financing elements of the Delta Vision. Our recommendations are summarized in Table 1, and compared to those of the Association of California Water Agencies, as expressed by Director Tim Quinn in his report: "Financing the Delta Vision" (4-25-08).

Land acquisition for physical habitat restoration and floodplain improvements

Most habitat and floodplain loss that has taken place in the Delta over the past 150 years has occurred as a result of water supply development. It is difficult to define clearly, however, what agencies derived the benefit of the loss of various components of habitat and floodplain loss. Therefore, we recommend that the responsibility for restoration of these lands be distributed 75% through a broad-based water use fee (applied to all agencies whose supplies are diverted from the Delta watershed.) and 25% through public funds.

Levee improvements and maintenance

We recommend that agencies that divert from the Delta pay their fair share of maintaining and replacing the Delta levees on which they depend. The share of Delta levee repair costs assigned to these agencies should reflect the extent to which the levee repairs are essential to ensuring uninterrupted diversions. We expect the remainder of levee costs will be divided between the federal government, the State, Delta communities,

¹ In order to be fair, we recommend that CVP water contractors receive credit for their pre-existing and ongoing contributions to the CVPIA Restoration Fund.

railroads, PG&E, Caltrans, EBMUD, the Ports of Stockton and Sacramento, and others who continue to have legal responsibilities for levee maintenance and replacement. We recommend that Delta Vision give high priority to determining how to finance necessary levee improvements where responsibility is unclear and/or sufficient funds are not available.

Water agency programs and projects

We believe water agencies will invest most wisely if they pay for their own supplies. Therefore we recommend that local agencies pay the full cost of any programs or projects that provide water supply to their customers. This principle applies to water conservation programs and reclamation projects, as well as any storage and conveyance projects. We note that storage and conveyance projects typically require significant mitigation costs which must, of course, be included in the cost of the project and paid by the beneficiary.

Environmental water operations

Any vision to implement the Blue Ribbon Task Force's co-equal goals of ecosystem restoration and reliable water supply will require a clear focus on water operations within the Delta. We recommend that operating and staffing costs associated with achieving maximal effectiveness in meeting these co-equal goals be financed by a combination of those who divert water before it gets to the Delta and those who divert water from the Delta.²

Science

For the most part, it should be possible to assign responsibility for ongoing scientific research in accordance with a Beneficiary Pays approach. Studies related to in-Delta water quality, hydrodynamics, fisheries etc. should be financed by agencies that divert water from the Delta. Studies related to environmental performance upstream of the Delta should be financed by a broad-based water use fee. It could be appropriate to use public funds to finance some aspects of Delta-related research, such as the potential to sequester carbon on Delta islands to offset the effects of global warming.

Emergency management actions

Water export agencies will be the chief beneficiaries of emergency actions taken to manage a catastrophic failure of the Delta and should therefore pay the majority of costs associated with emergency responses. We recommend that water export agencies provide 75% of the associated cost, with public funds providing the remaining 25% of the cost.

² Environmental Defense Fund has proposed that water supply operations be coordinated by a Delta Water Master. See "Increasing the Flexibility of Environmental Water Supply Operations in the Delta", revised May 14, 2008.

Potential new conveyance facilities

Any new conveyance facility would be built for the benefit of agencies that would derive water from it. We therefore, recommend that these agencies pay the full cost of the facility, including mitigation costs.

Storage with public benefits

The Blue Ribbon Task Force has recommended the development of new storage. As previously stated, we believe that new storage for water supply should be pursued only if the water agencies that would benefit are willing to pay the full cost, including environmental mitigation. Some recent proposals have suggested that new storage might be developed and managed to enhance environmental flows when they are needed most. While we are skeptical that storage would indeed be built and operated for such environmental benefits, we believe that the purpose of any such project would be to mitigate for already-developed projects that are presently diverting more natural flow from the watershed than is sustainable. Accordingly, we recommend that if such projects are to be considered, they should be financed by a broad-based water use fee.

Table 1
Parties Responsible for Financing a Delta Vision

<u>Program Element</u>	<u>ACWA Recommendation</u>	<u>EDF Recommendation</u>
Land acquisition and restoration	Public funds	Broad-based water use fee (75%) and public funds (25%)
Levees	Unknown	Water export agencies, public funds, federal government, other interests
Water agency programs and projects	Public funds pay up to one half, agency pays remainder	Water agencies
Environmental water operations	Unknown	Water export agencies and a broad-based water use fee
Science	Unknown	Water export agencies, broad-based user fee and public funds
Emergency actions	Unknown	Water export agencies (75%) and public funds (25%)
Conveyance facilities	Water export agencies	Water export agencies
Storage with public benefits	Public funds	Broad-based water use fee